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SUBJECT: SCENE-SETTER FOR CONGRESSIONAL VISITS TO POLAND

¶1. Your visits to Warsaw come at a somewhat turbulent political time in Poland, with the governing Law and Justice (PiS) party leadership having just dissolved a fractious coalition with two extremist junior partners and declared they will seek elections in the fall. The elections could be staved off by political maneuvering by PiS, but at the moment most observers think they will happen. Elections and political infighting dominate the media here, but there is much more to the story. Poland's economy is booming and unemployment dropping. U.S. companies find Poland an attractive place to invest, putting the U.S. among the top foreign investors. Poland remains one of our closest allies in Europe. The U.S. and Poland are engaged in several important endeavors, including negotiating a Missile Defense basing agreement, working together in Iraq and Afghanistan, and cooperating to advance freedom in countries such as Belarus and Cuba, and to resolve regional problems. Despite the close ties, Poles sometimes feel under-appreciated, wanting more military assistance in return for their loyalty in Iraq and Afghanistan, and hoping for entry into the Visa Waiver Program so that they can travel to the U.S. without a visa.

¶2. Political Overview: The political scene has been turbulent since before the 2005 elections that gave PiS an unexpected double victory. The party came in an unexpected first in the parliamentary elections, beating out centrist rivals Civic Platform (PO). Then, Lech Kaczynski won the subsequent presidential elections. Coalition negotiations with PO broke down over PiS's intention to dominate internal security and legal ministries (Justice, Interior, Special Services) as well as the presidency and prime minister's office. After some months as a minority government, PiS formed an unexpected coalition with the agrarian populist Self Defense (SO) and Catholic nationalist League of Polish Families (LPR), all the while trying to woo away its partners' voters and members. The coalition was in constant crisis with public infighting and embarrassing episodes dominating the news. After a botched corruption investigation and the firing of the Minister of Interior, PiS ended the coalition in August and the Prime Minister declared he would seek early elections.

¶3. Economic Overview: Despite the domestic political turbulence, the Polish economy is booming. Economy Ministry analysts predict GDP growth in Poland for the whole of 2007 will be 6.5 percent. In the latest ranking of the Federation of European Employers, Poland was named the most attractive destination for investors in Europe. Investors are drawn by a young, well-educated workforce. For example, Dell Computers is building a massive facility in formerly down-at-heels Lodz. In the financial sector, the Polish press has reported that GE-Money Bank, the Polish-based subsidiary of GE Capital, has reached agreement with Italy's Unicredito Bank regarding the purchase of Bank BPH, one of Unicredito's two banking subsidiaries in Poland. The acquisition, if completed, would catapult GE-money bank into the top ranks of

Poland's banking industry, creating a bank with a combined workforce of roughly 6900. The proposed transaction must still be approved by Poland's Banking Supervision Commission. Economic growth, coupled with strong migration since Poland joined the European Union, has brought down Poland's unemployment rate, formerly the highest in Europe. The official unemployment rate is now about 12 percent. Companies are reporting skilled labor shortages in some areas. Wages increased 9 percent from July 2006 to July 2007. Wage pressure, coupled with record housing prices (and -- until the recent global credit scare -- a rising stock market), lead most observers to predict interest rate hikes in the near future to stave off inflation.

¶4. Military Cooperation: Poland has remained a stalwart NATO ally of the United States, and is one of our best friends in Europe. Poland joined Operation Iraqi Freedom at the start when their Special Forces swiftly captured critical oil rigs - intact. Today, 900 Polish troops serve there preparing the Iraqis to take responsibility for Quadisiyah province. Notably, when the surge in Baghdad pushed insurgents into outlying provinces, Poland responded with more aggressive patrolling to deny them safe-haven. Poland also has about 1,000 troops in Afghanistan without "caveats."

Since 1995, we have given Poland over \$320 million in Foreign Military Finance (FMF) funds to modernize their formerly Soviet-style military. Among other things, they have used it to buy HMMWVs, refurbish C-130s, buy communications equipment and train pilots for the 48 F-16s they bought from the United States. Today, Poland ranks as Europe's largest recipient of FMF dollars. We give them about \$30 million per year -- about 10% of what we give to Pakistan. Poles appreciate a word of thanks for their loyalty, especially given public opposition to the deployments.

¶5. Missile Defense: We are half-way through missile defense negotiations with Poland and plan to base 10 interceptors on Polish soil as part of our effort to defend against missile launches from rogue states. The next round of negotiations will take place in Poland the first week of September. The negotiations involve several different documents, including a basing agreement, a Status of Forces (SOFA) agreement to supplement the NATO SOFA already in place, in addition to a general framework statement. This will be the first time Poland has voluntarily agreed to the establishment of a bilateral foreign military installation. Some voices are calling for Poland to "get something" in return for hosting the base. Others want to make sure that Poland's air defenses are secure. Poles have watched debates in the U.S. Congress over funding for the Polish Missile Defense site, and will almost certainly ask about support in Congress for Missile Defense.

¶6. Foreign Policy - The East: Poland is also a partner in promoting regional stability and democracy in countries near and far--something it has done for several years, whether under a post-communist or conservative nationalist government. For many years our ties with Poland were focused on solidifying Poland's democracy and transition to free market economy. Now that Poland is a member of NATO and the European Union, we work with them on issues of concern around the world. In particular, we often exchange ideas with the Polish leadership on the challenges posed by Russia's relations with its neighbors in Eastern Europe and the Caucasus. Poland played a critical role in securing Ukraine's 2004 "Orange Revolution," resulting in free elections, and continues to consult on Ukraine's efforts to integrate into western institutions. Poland promotes democracy in neighboring Belarus by supporting independent broadcasts, helping train and educate young people, and providing moral and other support to the democratic opposition. Poland also provides important political support to Georgia, helping it meet its NATO aspirations.

¶7. Foreign Policy - Cuba: Across the spectrum, Poles support aspirations for freedom in Cuba. Poland has successfully shaped EU policy, preventing an easing of official policy

toward Cuba during discussions earlier this year. Former president Lech Walesa has conducted conferences on Cuban freedom and a video conference with dissidents in Havana. Former president Aleksander Kwasniewski has supported the effort. The current government and president, all veterans of the Solidarity movement that brought Poland its freedom, know the importance of outside moral support for struggling dissidents. They appreciate thanks for their efforts, and need encouragement to continue to hold the line on efforts within the EU to ease EU limitations on official contacts with Cuba.

**¶8. Foreign Policy - The EU, Russia and Energy:** Poland has been somewhat less successful in managing its relations with Germany. Polish leaders are angry over a pipeline deal signed between Germany and Russia which would bypass Poland; and they argued strongly for a more advantageous system of weighting votes in the EU in the newly proposed EU Treaty. The Prime Minister's claim that Poland's casualties in World War II should be taken into consideration in striking a balance rankled many Europeans. We often stress the importance of good relations with Germany. Like us, Poland has concerns about Russia's role in the region, particularly in light of Russia's reaction to the proposed Missile Defense deal, and Russia's manipulation of energy resources. Poland looks to us to assist in diversifying its energy resources and we have had several discussions on improving its energy security through diversification.

**¶9. Holocaust Issues:** The Embassy works closely with the government and a variety of American and Polish Jewish organizations to address a number of Holocaust-related issues. Before World War II Poland was home to the largest Jewish population in Europe; only a remnant remained after the Holocaust. Most Jewish-Americans can trace their roots to Poland. A communal property restitution law has resulted in the return of many communal properties (synagogues and cemeteries, in particular) to the decimated Jewish community.

A number of American organizations and individual American citizens have worked in partnership with the Polish Jewish community and with local communities to clean up and restore a number of cemeteries, in particular. However, Poland is one of the few remaining countries without a personal property restitution law. Repeated efforts over the years have failed, largely because of the high cost of paying any such restitution. A law currently under consideration would provide for compensation of 15% of the current value of any property, and it would apply to all those who were Polish citizens at the outbreak of World War II. In January 2007 the Prime Minister told a visiting delegation that he would support the bill, but it has gone nowhere. We consistently urge the government and other political parties to pass this legislation while Holocaust survivors are still alive.

**¶10. Visas:** Poles feel strongly that their country should be included in the Visa Waiver Program (VWP) given Poland's considerable commitment in Iraq and Afghanistan, its 2004 accession to the European Union, and the fact that U.S. citizens do not need visas to enter Poland. They also object to the 100 USD visa application fee not being refunded when their application is refused. Nearly every Polish official can be counted on to raise this issue, and to ask what more Congress can do to facilitate Poland's entry into VWP. Poland's entry into the VWP depends on its ability to meet legislatively mandated requirements, the most problematic of which is a three percent or lower refusal rate for visitor visa applicants. Even with the recently legislated waiver that will allow countries with visa refusal rates of not more than 10 percent to be considered for VWP status, Poland would not qualify. The FY 2006 refusal rate for Polish nationals applying for visitor visas was 26 percent, in part a reflection of the country's still relatively high unemployment rate (currently officially 12%, but down from over 18% a few years ago). Despite the opening of several EU labor markets to Polish workers (most notably in the UK and Ireland), historic familial ties to cities such as Chicago and New York continue to make unlawful employment in the U.S. attractive to Polish nationals. A recent study conducted by

post indicated that fully 25% of Poles issued visitors visas remain in the U.S. for more than five months, a strong indicator that they are working illegally. Until this changes, the refusal rate for Poles is not likely to approach the threshold required for VWP membership.

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